

# ECON 1203 - Test 1

Name: \_\_\_\_\_

ID#: \_\_\_\_\_

This take-home test is due *no later than 12:35 PM on Thursday October 8<sup>th</sup>, 2020*. You may also turn it in during my office hours or by appointment earlier than the deadline.

1) (30 pts.) Suppose you have data on the income distribution of two separate cities:

City 1)

Percent of Population	20% "Bottom 20%"	40%	60%	80%	100% "Top 20%"
Percent of all income	3%	11%	14%	27%	45%

City 2)

Percent of Population	20% "Bottom 20%"	40%	60%	80%	100% "Top 20%"
Percent of all income	7%	16%	22%	25%	30%

- Draw the Lorenz curve for both cities on one chart
- Determine which city is likely to have a lower Gini coefficient. Discuss the rationale behind your answer.
- What solutions from the "Moving to Opportunity" experiment would you recommend to policy-makers in these cities to increase social mobility? Answer in a 4-6 sentences.

2) **(20 pts.)** Listen to Freakonomics podcast: *“Would a Big Bucket of Cash Really Change Your Life?”*  
(First 28 minutes only, linked to on the website, transcript available)

- a) Summarize the interview with the researcher in this podcast in 4-6 sentences. Be sure to include the method or “experiment” this researcher used to discuss mobility and discuss the thesis or “findings” of this researcher.
- b) The economist that is interviewed mentions “human capital” a number of times. Define human capital in terms that a classmate would understand.
- c) How is the acquisition of human capital impacted by a sudden influx of money (e.g. winning the lottery)?
- d) Critique the findings of this researcher. For example: what variables may be missing? What generalizations are made? Can we use a study about the 1800’s to inform policy in the 2000s?

3) **(20 pts.)** Read the attached article, “Bill would cut credit period for affordable housing program” from the Journal Record (published March 6<sup>th</sup>, 2019) and answer the following questions

- a) Assume that housing supply is perfectly inelastic, and assume that no factors are affecting demand for affordable housing. Using a diagram of supply and demand, compare how expected equilibrium housing prices would differ if the tax credit is cut and if the tax credit continues as planned.
- b) The other policy discussed in the article is HB 1411 which would remove the regulation that the affordable housing tax credit is only available to counties with less than 150,000 people. How would policy change affect supply and demand of housing in Edmond? Show using supply and demand.

4) (30 pts.) Economics of Discrimination

- a) Compare and contrast the three sources of discrimination discussed in class
- b) Formulate two examples of each of these sources of discrimination
- c) Research has found that racial segregation is one of the five strongest correlates of upward mobility. Using the concept of “utility-adjusted” prices (hint:  $price = p + \varepsilon$ ) discuss how discrimination may drive further segregation in neighborhoods and the effect this has on future generations’ mobility.
- d) *Opinion question, full points will be awarded to well-reasoned and well-supported answers regardless of choice.* Which source of discrimination is currently most prevalent or impactful in determining the wages and employment opportunities of underrepresented groups? Does your answer depend on the minority group that you are discussing?